



**THE GOVERNMENT OF NEW SOUTH WALES**

**SUBMISSION TO THE PRODUCTIVITY COMMISSION  
INQUIRY IN THE AUSTRALIAN PIGMEAT INDUSTRY**

**OCTOBER 2004**

# 1. Introduction

The Productivity Commission inquiry into the Australian pigmeat industry has been initiated during a period of prolonged producer-level financial losses and processing plant closures. While many of the root causes of these trends can be identified as being the increased exposure of the domestic industry to world markets, there remains much that can be done nationally to mitigate these adverse effects and ultimately improve the competitiveness of the domestic pigmeat industry.

The NSW Government makes this submission with the goal of assisting the Commission in becoming more aware of the considerable domestic and international challenges faced by the NSW pigmeat industry and the courses of action available to the Australian Government.

## 2. Overview of the Pigmeat Industry

### 2.1 Global Pigmeat Production

Globally, pork is the most widely consumed form of animal protein, representing around 40% of world meat consumption. International trade in pigmeat has increased at the rate of 6% per annum over the last five years and is projected to keep rising, driven by strong demand from China, Japan, Russia and Mexico.

Table 1 contains pigmeat production statistics for the major pigmeat producing countries in 2001. Australia produces about 0.4% of world pork production and accounts for 1.4% of world exports.

**Table 1: Major World Pigmeat Producers 2001**

Country	Tonnes (x1000)
China	43,300
EU	17,393
USA	8,790
Brazil	2,060
Canada	1,800
Poland	1,500
Russia	1,490
Australia	375

### 2.1 The Australian Pigmeat Industry

In a drive for efficiency, the Australian pigmeat industry has undergone considerable change. From the mid 1970's, the number of producers has fallen from 40,000 producers to the current 2,500 producers, while sow numbers have remained static at about 300,000 sows. The industry is presently characterised by a continuing decline in producers and increasingly larger specialised piggeries. One quarter of the producers account for about 92% of production.

The pork industry's contribution to the Australian economy is significant, with a farm gate value of \$1 billion, export earnings valued at \$228 million and a direct and indirect supply chain value worth \$2.6 billion to the national economy.

## ***2.2 The NSW Pigmeat Industry***

### 2.2.1 Scale of the Industry

NSW has approximately 600 commercial piggeries with about 100,000 sows and a gross production value of \$267 million. Most piggeries are family owned and about 100 producers account for more than 90% of the sows kept.

The pork industry's contribution to the NSW economy includes 1,703 direct on-farm jobs, 2,013 direct jobs in the pork supply chain and a further 4,200 full-time equivalent indirect jobs.

### 2.2.2 Geographic Location of Producers

Changes in traditional agriculture and greater urban and environmental pressures have meant that production has moved away from the coastal areas. Except for an area in the Richmond Tweed, the majority of the State's pigs are raised in the inland grain growing areas of NSW, particularly the Murray region, as shown in Table 2.

**Table 2: NSW Pigmeat Industry by Region**

Region	Sows & Gilts		Total No of Pigs		Sales of Pigs	
	#	%	#	%	#	%
Sydney	1612	1.6%	23981	2.9%	49800	2.9%
Hunter	2962	3.0%	22533	2.7%	41715	2.5%
Illawarra	1017	1.0%	7661	0.9%	10089	0.6%
Richmond/Tweed	6665	6.8%	60165	7.2%	115060	6.8%
Northern	11036	11.2%	89604	10.8%	161949	9.6%
North Western	7352	7.5%	71231	8.6%	99953	5.9%
Central West	11795	12.0%	80631	9.7%	144657	8.5%
South Eastern	9306	9.5%	77839	9.4%	150540	8.9%
Murrumbidgee	8346	8.5%	74517	9.0%	129676	7.7%
Murray	38161	38.8%	322823	38.8%	790221	46.7%
<b>Total</b>	<b>98252</b>	<b>100%</b>	<b>830985</b>	<b>100%</b>	<b>1693660</b>	<b>100%</b>

Source: ABS (2003) Agricultural survey data 2002

### 2.2.3 Production Practices

Commercial piggeries are very intensive and, if built at current prices, cost more than \$4,500 per sow. However, larger operations are expanding using low cost straw-based shelters (about 30% of production). This expansion has offset sow numbers lost through those exiting the industry.

Fifty percent of piggeries with 50 or more sows mix their own feed while 50% purchase feed from feedmills. In excess of 500,000 tonnes of stock feed worth about \$160 million is used annually. Grain constitutes 80 to 85% of the feed with the remaining 15-20% coming from protein meals.

Most producers buy performance-tested boars from reputable breeders. There is an increasing trend to purchase F1 (first cross gilts) selected for reproductive efficiency. To safeguard herd health status, producers are increasing their use of artificial insemination.

Over 90% of pigs are sold on direct consignment through a verbal contract with the buyer. Slaughter dressed weights average between 60 to 85 kg. Backfat is recorded at the abattoir and overfat pigs are penalised.

#### 2.2.4 NSW DPI Production Research

There is a continuing move away from the use of antibiotics. Research at the Elizabeth MacArthur Agricultural Institute (EMAI ) is at the cutting edge of developing probiotics which will provide increased immunity to infections in young pigs.

Other research efforts are directed toward improving production profitability, pork eating quality, health, welfare and environmental issues. Quality assurance in all aspects of production through to retail is becoming increasingly important. For example, research at EMAI using 'Catscan' facilities is critical to investigating marketing strategies based on lean meat yield.

A further challenge facing the industry is that larger continuous flow operations are not able to maintain production over the long term because continuous flow production eventually results in disease problems given there is no break in the production cycle. The NSW DPI's pork products advisory team has been developing a computer program which allows producers to change production systems to batch farrowing to provide a viable alternative to continuous flow production. Batch farrowing is widely used in other countries such as the US.

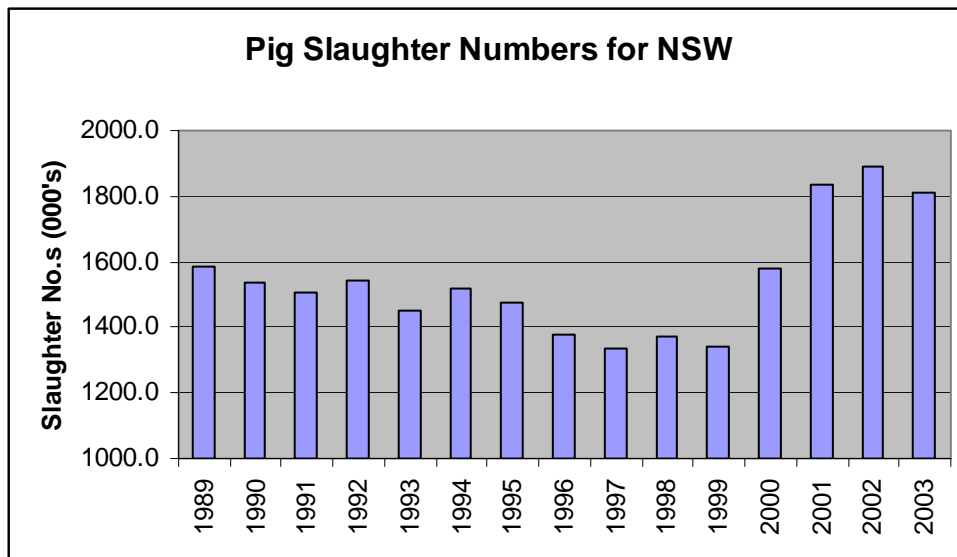
#### 2.2.5 Processing

Slaughtering figures in NSW for 2003 reached 1.8 million, an estimated decline from the previous year of about 6% due to farmers exiting the industry as a result of continued losses in the two years to August 2004. NSW pig slaughtering statistics are presented in Figure 1.

The major pig slaughtering facilities in NSW are situated at Booyong on the North Coast, Corowa (QAF) on the Murray River and at Young (Burrangong) on the Southern Slopes. They are all licensed export abattoirs. QAF is not a service works and only slaughters pigs it owns, including those contracted by the company.

Pigs are also killed at regional abattoirs at Cowra, Frederickton, West Wyalong and Wollondilly. There are other service abattoirs and slaughterhouses killing small numbers of pigs for butchers. Producers provide them with light-weight pigs to cater for the local fresh pork trade.

Figure 1



### 3. Key Factors Influencing the Profitability of the NSW Pigmeat Industry

#### 3.1 Import Competition

Despite a 55% increase in the annual consumption of pig meat in Australia (20.7 kg/person) over the last 30 years, NSW pigmeat producers have experienced declining profitability for over a decade, much of which can be attributed to import competition.

In 1996, Canada was given permission to export chilled boned cuts for further processing in Australia. This occurred at a time when overall domestic pig numbers had declined following an extended period of negative producer returns associated with high grain prices flowing from the severe drought in 1994-95.

Pig prices began to improve during 1996-97, but processors responded by increasing their orders for imported product. As a consequence, and for the first time, the anticipated Christmas price rise turned into a price fall.

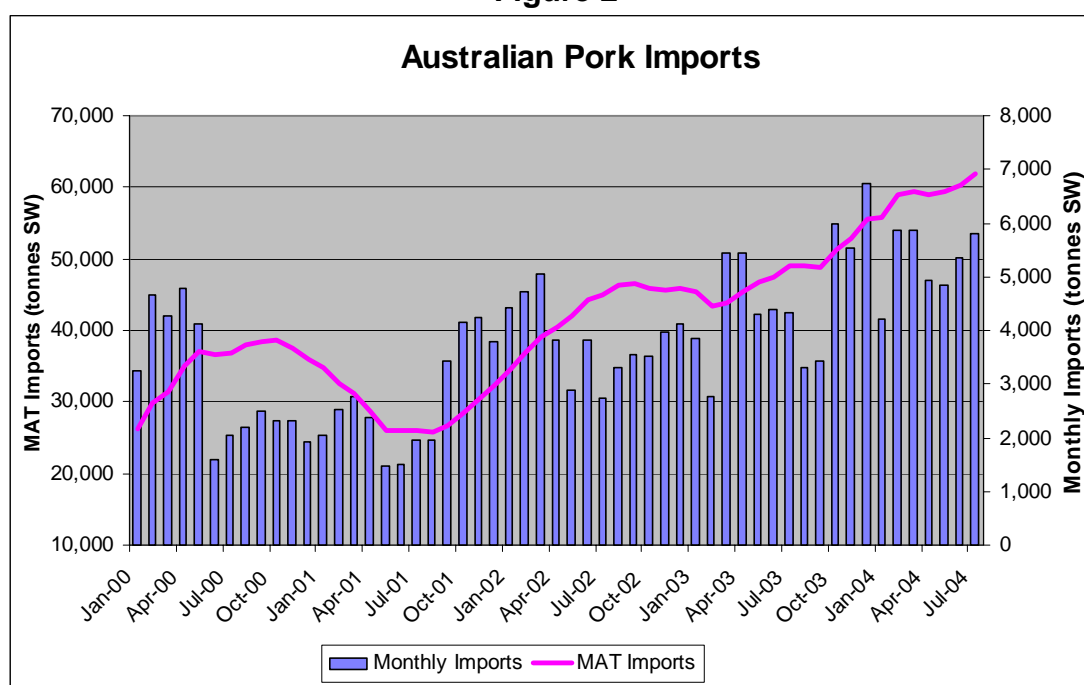
Producers received a short reprieve during mid 2000 to 2001 when imports fell below the tonnages exported. However, imports again increased during the latter part of 2001 and have continued to rise during 2002-2004, as shown in Figure 2. This, coupled with the present high feed prices associated with the drought and low pig prices, has meant that most producers have been sustaining losses for the last two years.

The European Union (EU) and Canada are the two top pork exporters in the world, and Australian pork imports are dominated by Canada and Denmark (an EU member), as shown in Table 3. Pork producers in both of these

countries receive greater government support than Australian producers, with the OECD estimating that Canadian and Danish producers receive 7 and 26 per cent of their earnings from government, respectively, compared to Australian producers at 4 per cent. European Union subsidies to pork producers are predominantly provided as market price support, meaning that EU producers, such as the Danes, are less responsive to price signals and tend to over-produce during times of low world prices. Given the EU's export capacity, this reinforces low world prices and tends to increase the quantity of EU pork directed at relatively open markets, such as Australia, as well as Japan and Singapore – Australia's major pork export markets.

Yearly pork import volumes from Denmark have almost doubled in the past 12 months as domestic processors continue to utilize growing quantities of Danish middles in their bacon manufacturing. Danish pork imports are now worth over AUD \$130 million a year.

**Figure 2**



**Table 3: Australian Pigmeat Imports by Origin**

	TOTAL		CANADA		DENMARK	
	Volume Tonnes SW	Value \$A (million)	Volume Tonnes SW	Value \$A (million)	Volume Tonnes SW	Value \$A (million)
<b>Aug 2004</b>	5,612	22.0	2,602	8.7	2,779	13.7
<b>Jul 2004</b>	5,813	22.9	2,580	8.5	3,035	8.4
<b>Aug 2003</b>	3,323	11.2	1,742	4.6	1,375	4.8
<b>MAT</b>	64,124	239.0	32,699	100.0	29,015	130.1

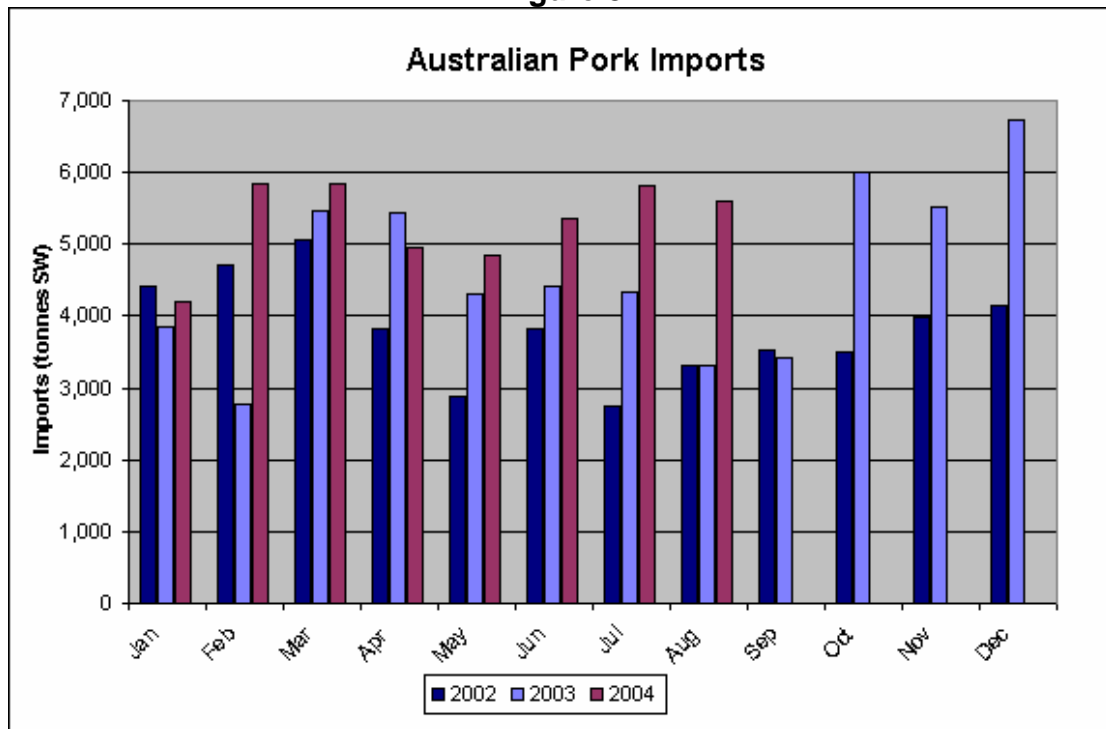
Source: ABS, MAT = 'moving annual total'

Australian pork imports in the past 12 months have increased 30.8 percent above the previous year's volumes despite lifting global prices. While past seasonal trends indicate that mid year import volumes tend to be lower to

coincide with higher world prices during the northern hemisphere summer, this has not been the case in 2004. Instead, processor apprehension over rising domestic prices has induced additional purchases of imported pork, with many processors already reaching an advanced stage in their Christmas buying programs. The per kilo value of pork imports during August was 15.9 percent above August 2003 levels, due largely to the increased proportion of higher priced Danish middles. Figure 3 illustrates the breakdown of previous seasonal importation trends during 2004.

North American pork prices continue to be fuelled by record demand combined with a shortage of inventory in that region. This has lifted pig prices in Canada to over 40c/kg above the five-year average, also reflected in the rising per kilo price of Canadian pork imports into Australia. However, this increase is only just being reflected on the domestic price.

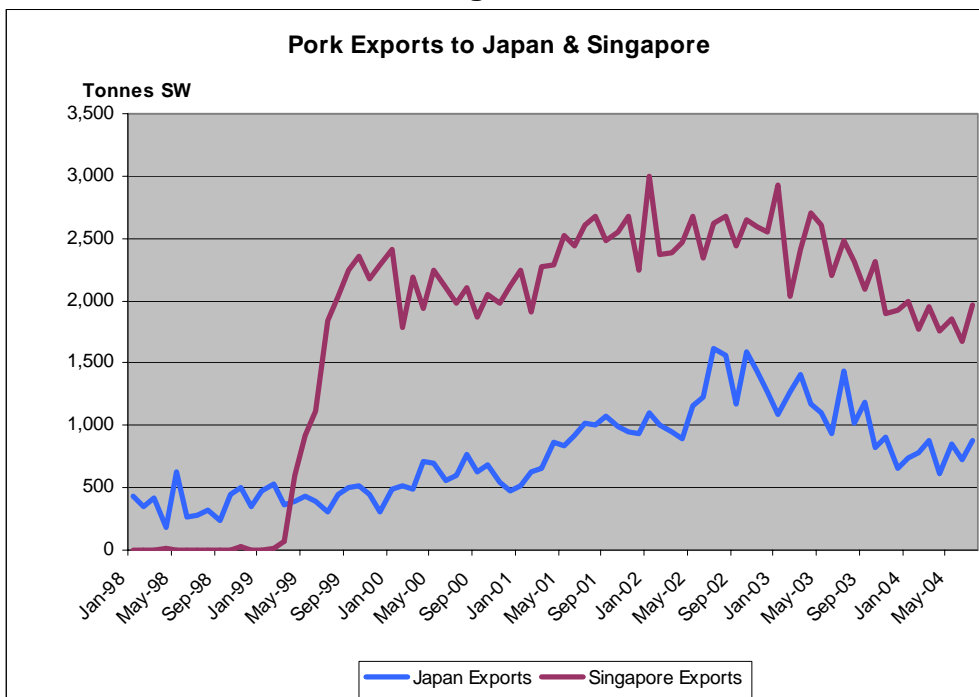
**Figure 3**



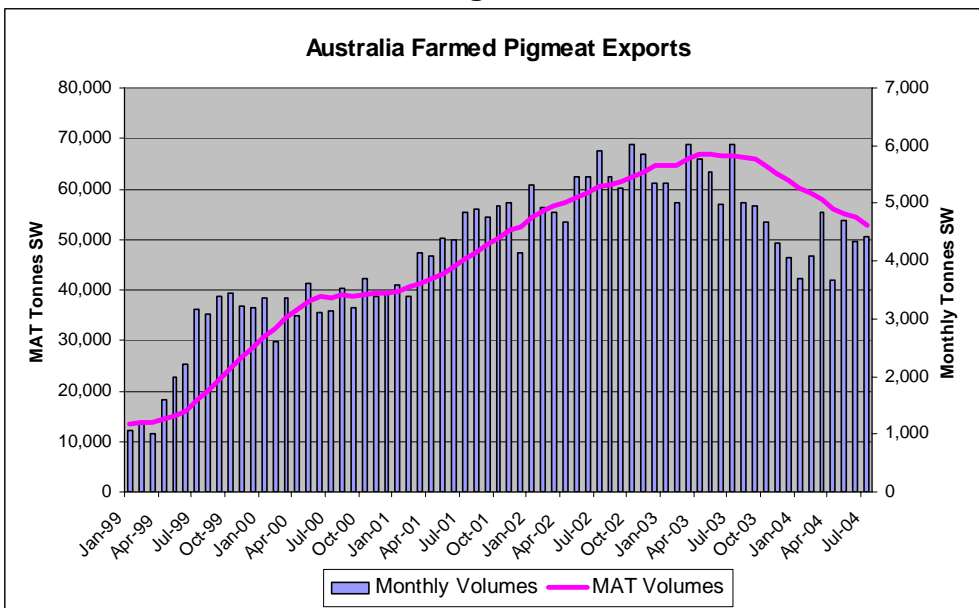
**3.2 Declining Exports**

NSW producers responded to the call to export in the late 1990s with the expansion of herds and a move to heavier carcasses. This saw an increase in pig slaughtering that coincided with the opening up of the Singapore market and an improvement in the Japanese trade, as illustrated by Figures 4 and 5.

**Figure 4**



**Figure 5**



Australian pork exports are now dominated by Singapore and Japan, which account for 44% and 32% of pork exports by value, respectively, as shown in Table 4. New Zealand is also a growing export market.



**Table 4: Australian Pigmeat Exports by Destination**

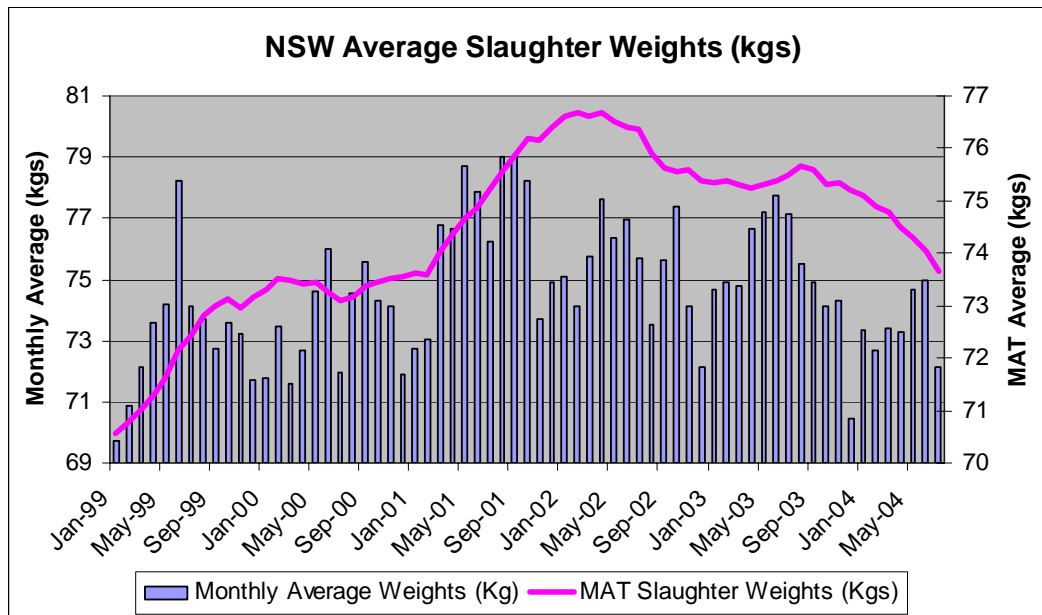
	TOTAL		SINGAPORE		JAPAN	
	Volume Tonnes SW	Value \$A (million)	Volume Tonnes SW	Value \$A (million)	Volume Tonnes SW	Value \$A (million)
May 2004	4,710	16.4	1,855	6.1	848	5.2
Apr 2004	3,673	12.3	1,754	5.8	613	3.5
May 2003	5,539	19.8	2,603	9.2	1,104	7.0
MAT	55,021	188.5	24,553	83.0	10,836	59.6

Source: ABS, MAT = 'moving annual total'

The Japanese market has been unsettled by demand fluctuations arising from a BSE scare, the imposition of a 'safeguard' gateprice on pork imports in August 2002 (and subsequent removal in April 2004), as well as recent world pork price and exchange rate fluctuations. This has caused Australian producers and processors to express reluctance to significantly boost pork export volumes to Japan until market conditions stabilise. These factors, combined with the emergence of non-Australian frozen pork imports supplying the food service and wet market sectors in Singapore, have resulted in total export volumes struggling to reach the same levels as 2003.

Export markets typically demand heavy carcass weights and so the reduction in export volumes has forced producers to offload pigs onto the lighter carcass weight domestic fresh pork market which, coupled with a trend towards imports replacing domestic pigs destined for the heavier carcass weight processing trade, has resulted in a sustained decline in slaughter weights beginning in 2002, as shown in Figure 6.

**Figure 6**



### 3.3 Structural Adjustment

The recent closure of the regional abattoir (Woy Woy) and the decision to cease slaughtering pigs at Junee & Scone were in part precipitated by the

decline in pig numbers in these areas due to producers exiting the industry. While the increasing concentration of pigmeat producers in the Murray region may provide some opportunities to improve economies of scale in southern NSW, producers that remain in other parts of the State are now faced with transporting their pigs further, including interstate. This has resulted in increased transport costs of between \$5-10/pig, equating to an increase of 6-11cents/kg in production costs (not including increased dressing losses that can occur through increased transport times or any resultant deterioration in meat quality ).

Transportation and scheduling are developing as major concerns, especially for small independent producers. They face several problems. First, they have difficulty providing sufficient numbers to fill large trucks to reduce transport costs. Second, fewer producers means less likelihood of sharing transport arrangements and costs. The current high fuel prices are adding further to transport and commodity costs. Third, smaller producers are often penalised with scheduling of slaughter times resulting in increased lairage times which causes increased losses in dressing weights and/or meat quality.

### ***3.4 Summer Infertility***

Infertility problems were encountered last summer as a result of the high temperatures experienced. It has been estimated that affected herds suffered up to 30% losses through summer infertility.

### ***3.5 Market Structure***

Larger companies tend to tie up markets from few suppliers where possible. For example, Woolworth's obtains their supply from QAF, which disadvantages smaller producers.

Through-chain alliances have not been very successful to date. There are, however, benefits in forming alliances, or in having a greater cooperation from producers to retail, in areas such as the development of niche markets.

### ***3.6 Domestic Population and Demographics***

Australia has a relatively small population that is growing very slowly. The increase in fresh pork consumption in the last 20 years can be attributed to its cost competitiveness with other meats, an increase in people of Asian decent (with a history of high pork consumption) and general promotion. Sales of processed pork in the form of smallgoods, ham and bacon have increased mainly via shaved ham through supermarkets and diced product via fast food outlets.

Australian consumers (particularly the younger generation) are generally devoting less time to shopping and cooking. Therefore, there is a need to constantly monitor and change marketing strategies, such as the promotion of 'meal solutions.'

## **4. Potential Areas for Australian Government Assistance**

The areas considered by the NSW Government to be the most rewarding avenues for Commonwealth assistance are summarised below.

### ***4.1 Quarantine Protocols***

Australian quarantine protocols are of significance to the domestic pigmeat industry as they affect the cost of production by directly influencing the cost of industry inputs as well as governing the degree to which the industry will be exposed to exotic disease risks.

Australia has a world best health status that provides a key marketing advantage in accessing and securing Asian markets as well representing a competitive advantage over international competitors. These advantages would be threatened by any move to reduce the veracity of existing quarantine protocols governing the importation of pigmeat or pork products. For example, Post Weaning Multisystemic Wasting Syndrome (PMWS) has cost pig industries throughout the European Union \$A1.5 b and killed 8 m pigs. In the United States, PMWS costs the pig industry \$US600 m a year. PMWS would add 15% to the costs for production in Australia if this disease was introduced.

Quarantine protocols also influence the cost of inputs, such as feed grains and genetics, by restricting producer's ability to import feed grains at times of high domestic feed grain prices, or importing live stud pigs or semen to improve their genetic resources. The Commonwealth could investigate ways of improving the access of intensive industries to imported feed grains without jeopardising the Australian grain industry's disease status. Similarly, better access to international genetics would also improve the competitiveness of the Australian pigmeat industry. The industry supports an 'open window' for the importation of superior breeding stock or semen, although care must be taken not to jeopardize the health status of other Australian livestock industries through the inadvertent admission of multi-species pathogens.

### ***4.2 Animal Welfare***

In the Australian pork industry, the most common form of sow housing for lactating sows is full confinement farrowing crates. This style of accommodation has been found to help reduce piglet deaths due to accidental crushing by the sow and inadequate temperature control for the piglet environment. Crates also protect the stock person from sow aggression which allows free access for litter management tasks.

As typical farrowing crates restrict sow movement, animal welfare groups around the world have concerns over their use and Europe is considering banning farrowing crates on animal welfare grounds. While there is a need to investigate alternative farrowing accommodation systems to cater for welfare

concerns, consideration needs to be given to the additional costs that may be imposed on the Australian pork industry.

#### ***4.3 Subsidised Production – International Competitors***

Presently, the supply of pork to international markets is not only determined by relative costs of production and obvious barriers to entry to specific markets, such as tariffs and quotas, but also significant and less transparent production and export subsidies, particularly those received by European Union producers. These domestic support measures provide pigmeat producers and exporters in those countries with a significant (and unfair) advantage over Australian producers, who do not receive equivalent support.

The Commonwealth is responsible for multilateral and bilateral trade negotiations and needs to make every effort to pursue trade arrangements that put our industry on a 'level playing field' with international competitors. Together with robust, scientifically-based, quarantine protocols, this would ensure that the Australian industry has every opportunity to compete on world markets and does not face unfair import competition.

#### ***4.4 Producer education and business skills***

International competitiveness is underpinned by the level of production and financial management skills held by domestic producers. Furthermore, the ability for producers to scan their operating environment and determine whether they have the capacity to continuously improve their productivity is particularly important during times of structural adjustment. It is therefore apparent that producer education and extension schemes have an important role in ensuring that the domestic pork industry is able to make the productivity improvements necessary to ensure its competitiveness against imports.

The second FarmBis scheme , which concluded on 30 June 2004, included a number of programs that aimed to improve the business skills of NSW pork producers, including:

- Australian Pork Industry Quality (APIQ) Training and Education;
- Manage Production, Plan Production Part 1 (Piggery Enterprise) ;
- Australian Pork Industry (APIQ) Training & Education Option 2;
- Australian Pork Industry (APIQ) Training & Education Option 3;
- Environmental Principles for Piggeries;
- Australian Pork Industry Quality (APIQ) Training & Education. Management of QA and update to APIQ 2000 standards; and
- Benchmarking For Piggery Managers.

With the guidelines for the third FarmBis scheme still under negotiation, the Commonwealth is now in a position to ensure that such programs are again available to the State's pork producers.